THE MANITOBA PUBLIC INSURANCE CORPORATION

1987 Annual Report

The Manitoba Public Insurance Corporation

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FOR THE FISCAL YEAR ENDED OCTOBER 31, 1987

Contents

Transmittal Letter	2
Automobile Insurance Division	3
General Insurance Division	7
Board of Directors/Corporate Officers Administrative Offices and Claims Centres	11
Auditors' Report	12
Report of the Property-Casualty Valuation Actuary	13
Statement of Operations	
Automobile Insurance Division	14
General Insurance Division	15
Balance Sheet	16
Statement of Deficit	18
Changes in Cash and Short-Term Investments	19
Schedule of Expenses	20
Schedule of Investments	21
Notes to Financial Statements	26

Letter of Transmittal

MANITOBA

MINISTER RESPONSIBLE FOR
THE MANITOBA PUBLIC INSURANCE CORPORATION

Winnipeg, Manitoba
February 11, 1988

To His Honour
The Honourable George Johnson
Lieutenant-Governor of the Province of Manitoba

May It Please Your Honour:

I have the honour to submit the Annual Report of The Manitoba Public Insurance Corporation for the year ended October 31, 1987, in accordance with Section 37(1) of The Manitoba Public Insurance Corporation Act.

Respectfully submitted,

Honourable Bill Uruski
Chairperson and Minister Responsible for
The Manitoba Public Insurance Corporation

Automobile Insurance Division

Claims costs escalate

An unprecedented increase in claims costs, fuelled largely by higher repair costs, injury settlements and court awards, led to a net operating loss of $61.6 million for the Automobile Insurance Division during the fiscal year ending October 31, 1987.

The $61.6 million loss depleted the Corporation's rate stabilization, contingency and catastrophe funds, which stood at $52.5 million, leaving a net deficit of $9.1 million.

The Division processed approximately 249,000 claims, with claims incurred and claims expenses totalling a record $306.3 million. This includes a provision for unreported claims and adjustment expenses as determined by an actuarial review. The review, which was conducted by an independent actuarial consulting firm, recommended that reserves and related expenses be adjusted to accommodate anticipated higher settlements for claims that have not yet been concluded.

Commissions, premium taxes and administrative expenses amounted to $29.5 million in 1987, bringing total claims and expenses to $335.8 million. Earned revenues totalled $274.2 million, including $237.5 million in premiums earned and $36.7 million in investment income.

The higher repair costs and injury claims settlements experienced in 1987 contributed to an increase in the average cost per claim to $1,119 from $891 in the previous year.

Changing automobile construction and design is one of the major factors influencing the rising cost of repairs. Manufacturers are using more plastic and vinyl parts which often require complete replacement when damaged in an accident. The growing popularity of front-wheel-drive vehicles has also caused claims costs to increase, as these vehicles tend to be more expensive to repair when they are involved in front-end collisions. At the same time, the price of new vehicles and accessory equipment is rising steadily, leading to higher replacement costs.

Injury claims settlements, including no-fault accident benefits and third party liability claims, rose from $65.2 million in 1986 to a record $85.3 million in 1987.

This upward trend can be attributed to several recent developments. Court awards for pain and suffering have increased significantly and have led to higher settlements for all injury claims, regardless of whether they are settled through the court system. In addition, claimants are typically undergoing longer and more expensive treatments for their injuries. For example, in 1987 the average cost per claimant for physiotherapy was $426, compared with $272 in 1986.

Although rising claims costs seriously affected the Division's financial performance, the Corporation's operational efficiency enabled it to return a large portion of the premium dollar to motorists in the form of claims payments and benefits. At 4.5 per cent of premiums earned, the Corporation's administrative expense ratio is the lowest of any major insurer in Canada.

In 1987, MPIC's Automobile Insurance Division processed nearly a quarter of a million claims — the highest volume in the Corporation's history.

During the year under review, MPIC also continued to provide Manitoba motorists with one of the most comprehensive packages of insurance protection in North America. The Corporation's no-fault accident benefits, which are widely recognized as the best in the industry, were further enhanced in 1987 with an increase in the medical expense allowance from $20,000 to $100,000. At the same time, permanent impairment benefits for persons rendered quadraplegic or paraplegic as a result of motor vehicle accidents were equalized at $20,000. Prior to this, paraplegics qualified for a maximum impairment benefit of $12,700.

Planning for the 1990s

To continue to fulfill its mandate of providing Manitobans with high-quality insurance coverages at affordable rates, the Corporation has adopted a new strategy designed to place it in a strong financial position for the 1990s and beyond.

The plan involves four principles and formed the basis of Autopac rate and coverage changes for the 1988 insurance year:

- Requiring high-risk drivers who cause a large number of accidents to assume a greater share of insurance costs.
- Introducing a further degree of equity into the rating structure to ensure that responsible motorists will continue to enjoy insurance premiums which are among the lowest in Canada.
- Providing Manitobans with coverage and benefits that are unsurpassed in North America.
- Increasing internal efficiency to offer enhanced levels of service to motorists throughout the province.

MPIC's high school driver education program instructs teenagers in the safe operation of a motor vehicle. Students combine 25 hours of classroom time with 16 hours in a driver training car as preparation for becoming responsible drivers.

Passenger cars and light trucks receive safety inspections under MPIC's vehicle inspection program. Inspectors conduct a 10-minute check of each randomly-selected vehicle for mechanical defects or damage.

Investing in safety

In addition to serving the automobile insurance needs of Manitobans, the Corporation continued to promote driver and vehicle safety in an effort to prevent losses, control insurance costs and, most importantly, to reduce injuries and deaths.

On April 1, 1987, responsibility for the High School Driver Education, Snowmobile and Bicycle Safety and Vehicle Inspection programs was transferred to MPIC from the Department of Highways and Transportation. The transfer of these programs was a logical administrative move in view of the Corporation's close involvement with traffic safety promotion and education. MPIC had been paying most of the cost of the High School Driver Education program before the transfer. The Snowmobile and Bicycle Safety program was also closely related to the Corporation's safety activities and the Vehicle Inspection program was being co-ordinated through MPIC's computer system.

The Corporation's ALIVE public awareness campaign addressed a number of key safety issues in 1987, including drinking and driving, the use of child restraint systems and the high school "Safe Grad" program. Funding was also provided to the Manitoba Safety Council and the Manitoba Trucking Association for a variety of driver improvement courses.

As the province's automobile insurer, MPIC has a direct interest in the safety of motorists and pedestrians. By investing in education, promotion and loss prevention, the Corporation is striving to control future claims costs, thus ensuring that Manitobans continue to enjoy the benefits of an efficient public insurance system.

Bill Uruski,
Chairperson and Minister
Responsible for MPIC

Robert M. Silver,
President and General Manager

Improvements in No-Fault Accident Benefits 1971 vs. 1987

BENEFIT	1971	1987	% INCREASE
Medical Expenses	$2,000	$100,000	4900
Partial Disability	$25/week	$60/week	140
Minor	Actual earnings to above max.	Actual earnings to above max.	
Homemaker	$25/week	$60/week	140
Total Disability			
Maximum Payment	$75/week	$150/week min. or 70% of gross earnings to max. of $300/week	100
Minors	Actual earnings to above max.	Actual earnings to above max.	
Homemaker	$75/week	$150/week	100
Impairment			
Maximum Payment	$6,000	$20,000	233
Entitlement to Paraplegic	$6,000	$20,000	233
Death			
Payment to primary dependent	$5,000	$10,000	100
Payment to secondary dependent	$1,000	$2,000	100
Payment to self-supporting spouse of victim	$2,000	$10,000	400
Death (under 18 years)	$500	$2,000	300
Death (18 and over with no spouse or children)	$1,000	$2,000	100
Maximum payment (per family)	$10,000	No limit	
Funeral Expenses	$500	$1,500	200

Five-Year Comparison of Financial Statistics

(thousands of dollars)

		1987	1986	1985	1984	1983
Automobile Insurance Division	Premiums Written	**$246,354**	$220,337	$204,127	$195,371	$186,206
	Premiums Earned	**237,492**	215,003	200,733	189,956	182,131
	Claims Costs	**306,345**	244,464	203,938	178,852	173,511
	Premium Taxes	**7,235**	6,541	6,105	5,746	5,516

General Insurance Division

A year of change

The 1986/87 fiscal year was a period of transition for the General Insurance Division. Faced with increasingly competitive market conditions in the property/casualty insurance industry and escalating claims costs, the Division reported a net operating loss of $11.2 million, excluding reinsurance assumed.

During the year under review, an actuarial assessment of the Division's provision for claims incurred but not reported (IBNR) recommended that an additional $7.3 million be set aside to cover the anticipated cost of settling these claims. This had a major impact on claims incurred, which rose to a record $33.6 million. Claims expenses of $2.1 million and administrative expenses, commissions and premium taxes of $16.1 million combined to produce total claims and expenses of $51.8 million. Total earned revenues rose to $40.6 million from $37.9 million in 1985/86.

The General Insurance Division delivers its property/casualty insurance products through three major business units — Personal Lines, Commercial Lines and Special Risks Extension. Each area specializes in providing comprehensive insurance coverage and service to meet the needs of Manitoba businesses, institutions and individuals. Through its Personal Lines program, the Division offers a broad selection of insurance packages to homeowners, tenants and farmers. The Commercial Lines portfolio includes coverages which are specially designed to protect businesses against a wide range of casualty, property, liability, fidelity and surety risks. Special Risks Extension complements MPIC's basic automobile insurance program, enabling Manitobans to purchase additional insurance protection for their vehicles.

In response to changing market conditions, the Division undertook a detailed review of the pricing structure and underwriting criteria for its Personal Lines products. Although the resulting rate and coverage changes led to a decline in Personal Lines policy counts, the revisions to the home protec-

MPIC's agency force plays a vital role in marketing its general insurance products to homeowners, tenants, farmers and business people across Manitoba.

tion program have laid the foundation for financial recovery.

While a decrease in claims volume of 14.1 per cent from 1985/86 can be primarily attributed to the lower policy count in Personal Lines, tighter underwriting controls in the Division's Commercial and Special Risks Extension programs also played a major role. Offsetting the lower claims volume, however, was a substantial rise in the average cost per claim, mainly because of higher repair and replacement costs and the continued trend toward larger court awards for liability settlements. A number of large fire losses and a significant increase in crime rates, resulting in more theft and vandalism claims, also had a marked impact on claims costs in the year under review.

A strategy for recovery

The Division embarked upon a strategy of recovery and revitalization in 1987. Although difficult market conditions will make this task a challenging one, the Corporation is fully committed to its goal of improving the Division's financial performance and enhancing the quality of its products and services.

This commitment to service was demonstrated in various ways during the past year. For example, MPIC provided liability insurance coverage to a number of Manitoba businesses and non-profit organizations that were unable to obtain such protection elsewhere. Senior citizens and claims-free customers also enjoyed the benefits of premium discounts based on their claims experience. In addition, MPIC officials participated in a number of community programs aimed at helping the public to reduce their own claims costs through responsible loss prevention and management.

Increased internal efficiency was also a top priority in 1986/87. Automation has been, and will continue to be, an integral part of the Division's long-range business plans. Recent enhancements to its computerized policy and claims

Expanded applications for automated technologies continue to be part of MPIC's strategy for the future. In 1987, further enhancements to the General Insurance Division's automated system for processing policies and claims underscored an ongoing commitment to providing high-quality, efficient service.

processing system assist in providing quicker, more efficient service to both agents and clients.

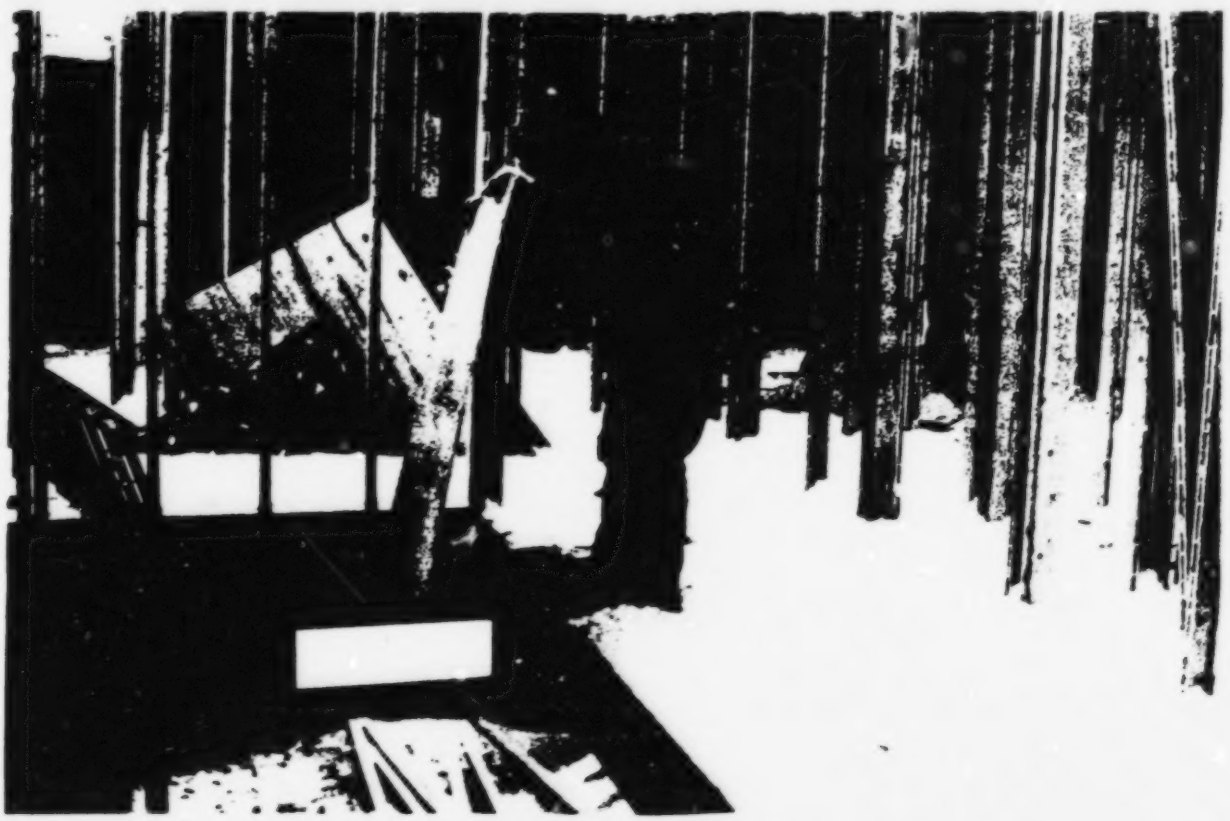
The Division's new strategy places a sharper focus on product and market analysis, as well as the Corporation's own methods of underwriting risks. The strategy is already beginning to produce positive results, with a return to sounder underwriting principles contributing to a reduction in claims in each of the Division's product areas. Revisions to the pricing structure also ensure that premiums better reflect the nature and extent of the risk being underwritten.

Product development and effective marketing are keys to success in the highly-competitive property/casualty insurance industry and each plays an important role in the Division's program of revitalization. More extensive market analysis will ensure that MPIC's general insurance products are competitive with those of other insurers, while ongoing review of existing products, coupled with new product development, will enable the Division to offer a full range of protection to consumers.

Since its inception in 1975, MPIC's General Insurance Division has played a leading role in the property/casualty insurance market. Although the 1986/87 operating loss places greater pressure on the Division as it prepares to meet the challenges of the future, the recovery strategy underlines the Corporation's determination to maintain its reputation for quality and service to the people of Manitoba.

Reinsurance assumed

Reinsurance assumed refers to the practice of one insurance company (the reinsurer) accepting all or part of a risk written by another (ceding) insurer. Because its potential liability is reduced, the ceding insurer pays a premium to the reinsurer for assuming the risk. This practice is common in the insurance industry, as it enables insurers to minimize their exposure to large claims by spreading their risks among a pool of companies.



In a growing, diversifying economy, MPIC's general insurance products must be regularly reassessed and redesigned to ensure they meet the needs of an ever-changing market.

The Corporation began participating in the assumed reinsurance market shortly after the General Insurance Division's inception in 1975. The objective was to reduce MPIC's exposure to risk through reciprocal agreements with other insurers and, in turn, to acquire profitable business from these other companies.

Favourable market conditions prompted the Division to expand its assumed operations over the years until 1984, when the market became volatile and mounting claims placed a severe strain on the financial results of the assumed book of business. The Division responded by shifting the major portion of its portfolio to the relatively stable domestic market, and by cancelling a number of assumed treaties that were seriously affecting its financial performance.

In 1986, the Corporation conducted an evaluation of the anticipated cost of future claims arising from its assumed portfolio and significantly increased its provision for claims incurred but not reported (IBNR). During the fiscal year ending October 31, 1987, an actuarial review of the Division's potential reinsurance assumed liabilities recommended that the IBNR be adjusted to a level which, in the opinion of the actuary, more closely reflects projected claims experience.

At a time when liability insurance coverage is often difficult to obtain, MPIC was able to offer this protection to day care centres, hospitals, schools and community organizations throughout the province.

The General Insurance Division's reinsurance assumed book of business, which is separate from its other operations, recorded net income of $5.6 million in the 1986/87 fiscal year. Total earned revenues amounted to $18.3 million, while claims and expenses totalled $12.7 million.

The actuarial review of the assumed portfolio's provision for unreported claims (included under claims incurred in the notes to the financial statements) resulted in a reduction of $3.5 million in its IBNR for the year. This decrease in provisions for anticipated liability settlements is largely responsible for the assumed book's positive financial results in the year under review.

Effective November 18, 1987, the Corporation discontinued writing reinsurance assumed business. Due to the long-term nature of liability claims, however, claims incurred under previously-signed treaties will continue to be reported for a number of years.

Bill Uruski,
Chairperson and
Minister Responsible for MPIC

Robert M. Silver,
President and General Manager

Five-Year Comparison of Financial Statistics

General Insurance Division*	Premiums Written	**$ 37,969**	$ 37,050	$ 26,868	$ 20,641	$ 11,447
	Premiums Earned	**37,443**	34,768	23,979	19,726	10,841
	Claims Costs	**35,682**	26,362	18,124	12,564	6,423
	Premium Taxes	**1,755**	1,610	1,137	962	659

*Excluding reinsurance assumed business.

Board of Directors

* Honourable Bill Uruski, Chairperson

J. Scott Broughton

Frances Jakeman

* Raynald C. Labossiere

** Larry Lepischak

* Marilyn McLaren

Conrad Santos, M.L.A.

** Daniel J. Werbiski

* Members of Audit Committee
** Members of Autopac Agency Committee

Corporate Officers

R.M. Silver, President and General Manager

H.P. Dribnenky, Vice-President, Finance and Administration

B.W. Galenzoski, Vice-President, Corporate Planning and Business Studies

L.D. Guptill, Special Advisor to the President

J.A. Kalbfleisch, Vice-President, General Insurance Division

S.S. Kapoor, Q.C., Vice-President, Employee and Corporate Relations/General Counsel

D.R. Kidd, Vice-President, Systems and Information Support Services

T.M. Petrishen, Vice-President, Automobile Insurance Division

Administrative Offices and Claims Centres

HEAD OFFICE
Brandon — 731-1st Street, R7A 6C3, 728-7120

ADMINISTRATIVE OFFICES
Winnipeg — Box 6300, 9th Floor, 330 Graham Avenue, R3C 4A4, 942-0331

DRIVE-IN CLAIMS CENTRES
Winnipeg — 445 King Street, R2W 5H2, 949-0872 DIAL-a-CLAIM
125 King Edward Street E., R3H 0V9, 783-2114 DIAL-a-CLAIM
930 St. Mary's Road, R2M 4A8, 257-8772 DIAL-a-CLAIM
420 Pembina Highway, R3L 2E9, 475-1150 DIAL-a-CLAIM
1103 Pacific Avenue, R3E 1G7, 788-4009 DIAL-a-CLAIM
Brandon — 731-1st Street, R7A 6C3, 728-7120 DIAL-a-CLAIM
Dauphin — Box 3000, 217 Industrial Road, R7N 2V5, 638-5111 DIAL-a-CLAIM
Portage la Prairie — 2007 Saskatchewan Avenue W., R1N 3J9, 857-9751 DIAL-a-CLAIM
Selkirk — 630 Sophia Street, R1A 2K1, 482-3839 DIAL-a-CLAIM
The Pas — Box 9100, 424 Fischer Avenue, R9A 1R5, 623-6487

CLAIMS OFFICES
Flin Flon — Box 250, 8 Timber Lane Road, R8A 1M9, 687-7563
Steinbach — Box 2139, 110 Townline Road, R0A 2A0, 326-4453 DIAL-a-CLAIM
Swan River — Box 1959, Highway #10 East, R0L 1Z0, 734-4574
Thompson — Box 760, 80 Nelson Road, R8N 1N5, 778-7351 DIAL-a-CLAIM
Winkler — Box 1990, 600 Memorial Drive, R0G 2X0, 325-9538 DIAL-a-CLAIM

COMMERCIAL AUTOMOBILE CLAIMS
Winnipeg — 1981 Plessis Road, Box 32, Group 512, R2C 2Z2, 224-1291

BODILY INJURY CLAIMS CENTRE
Winnipeg — 8th Floor, 330 Graham Avenue, R3C 4A4, 942-0331

GENERAL INSURANCE CLAIMS
Winnipeg — 8th Floor, 330 Graham Avenue, R3C 4A4, 942-0331

SALVAGE
Brandon — 731-1st Street, R7A 6C3, 728-7120
Dauphin — Box 3000, 217 Industrial Road, R7N 2V5, 638-5111
Winnipeg — 1981 Plessis Road, Box 32, Group 512, R2C 2Z2, 224-1291

Auditors' Report

The Board of Directors
The Manitoba Public Insurance Corporation

We have examined the balance sheet of The Manitoba Public Insurance Corporation as at October 31, 1987 and the statements of operations and of deficit for the Automobile Insurance Division and the General Insurance Division and the statement of changes in cash and short-term investments for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at October 31, 1987 and the results of its operations and the changes in its cash and short-term investments for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The financial statements of the preceding year were examined by other chartered accountants.

Thorne Ernst & Whinney

Thorne Ernst & Whinney
Chartered Accountants
Winnipeg, Manitoba
January 8, 1988

Report of the Property-Casualty Valuation Actuary

I, David J. Oakden, am a Fellow of the Canadian Institute of Actuaries and the Casualty Actuarial Society.

I have made a valuation of the policy and claim liabilities of the Manitoba Public Insurance Corporation for its balance sheet at 31 October 1987 and its statement of operations for the year then ended. In my opinion (i) the valuation conforms to the Recommendations for Property-Casualty Insurance Company Financial Reporting of the Canadian Institute of Actuaries, (ii) the amount of the policy and claim liabilities makes proper provision for future payments under the Corporation's policies, (iii) a proper charge on account of these policies has been made in the statement of operations.

The specific balance sheet items examined are as follows:

Automobile Insurance Division	
Unearned Premiums	$ 87,351,000
Unpaid Claims (including premium deficiencies)	$251,588,000
General Insurance Division	
Unearned Premiums	$ 19,109,000
Unpaid Claims	$ 85,228,000
Deferred Premium Acquisition Costs	$ 3,378,000

TILLINGHAST

David J. Oakden

David J. Oakden, F.C.I.A., F.C.A.S.

The Manitoba Public Insurance Corporation

Automobile Insurance Division — Statement of Operations

	Year Ended October 31	
	1987	1986
	(in thousands of dollars)	
REVENUE		
Premiums written	**$246,354**	$220,337
Premiums earned	**$237,492**	$215,003
Investment income	**36,752**	36,698
Total earned revenues	**274,244**	251,701
CLAIMS COSTS		
Claims incurred	**278,637**	219,172
Claims expense (Schedule 1)	**27,708**	25,292
	306,345	244,464
EXPENSES (Schedule 1)		
Administrative	**10,709**	9,280
Commissions	**11,531**	10,189
Premium taxes	**7,235**	6,541
	29,475	26,010
Total claims and expenses	**335,820**	270,474
LOSS FOR THE YEAR	**$ (61,576)**	$ (18,773)

The Manitoba Public Insurance Corporation

General Insurance Division — Statement of Operations

	Year Ended October 31	
	1987	1986
	(in thousands of dollars)	
REVENUE		
Premiums written	**$ 37,969**	$ 37,050
Premiums earned	**$ 37,443**	$ 34,768
Investment income	**3,109**	3,152
Total earned revenues	**40,552**	37,920
CLAIMS COSTS		
Claims incurred	**33,621**	24,619
Claims expense (Schedule 1)	**2,061**	1,743
	35,682	26,362
EXPENSES (Schedule 1)		
Administrative	**7,427**	6,246
Commissions	**6,924**	6,353
Premium taxes	**1,755**	1,610
	16,106	14,209
Total claims and expenses	**51,788**	40,571
Loss before reinsurance assumed operations	**(11,236)**	(2,651)
Income (loss) from reinsurance assumed operations (Note 8)	**5,582**	(36,683)
LOSS FOR THE YEAR	**$ (5,654)**	$ (39,334)

The Manitoba Public Insurance Corporation

Balance Sheet
Assets

	October 31	
	1987	1986
	(in thousands of dollars)	
Cash and short-term investments (Note 4)	**$ 74,710**	$ 66,308
Accounts receivable (Note 5)	**35,503**	30,571
Prepaid expenses and inventories	**1,126**	1,169
Deferred premium acquisition costs	**3,378**	10,693
Investments (Schedule 2)	**281,731**	279,516
Property and equipment (Note 6)	**13,967**	12,907
Organizational costs	**4,293**	4,748
	$414,708	$405,912

Approved by the Board:

Chairperson

Director

Liabilities and Deficit

	October 31	
	1987	1986
	(in thousands of dollars)	
General accounts payable	**$ 3,354**	$ 3,391
Provision for accrued charges	**21,424**	18,827
	24,778	22,218
Automobile Insurance Division		
Accounts payable and accrued charges	**4,671**	4,807
Unearned premiums	**87,351**	78,489
Unpaid claims	**251,588**	196,648
Retained earnings (deficit)	**(9,080)**	52,496
	334,530	332,440
General Insurance Division		
Accounts payable and accrued charges	**1,418**	2,577
Unearned premiums	**19,109**	18,880
Unpaid claims	**85,228**	74,498
Deficit	**(50,355)**	(44,701)
	55,400	51,254
	$414,708	$405,912

The Manitoba Public Insurance Corporation

Statement of Deficit

	Year Ended October 31	
	1987	1986
	(in thousands of dollars)	
AUTOMOBILE INSURANCE DIVISION		
Unappropriated:		
Loss for the year	**$ (61,576)**	$ (18,773)
Transfer from reserve for catastrophes	**42,000**	—
Transfer from reserve for contingencies	**700**	5,300
Transfer from reserve for rate stabilization	**9,796**	13,473
Deficit at end of year	**(9,080)**	—
Appropriated:		
Reserve for catastrophes	**—**	42,000
Reserve for contingencies	**—**	700
Reserve for rate stabilization	**—**	9,796
	—	52,496
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	**$ (9,080)**	$ 52,496
GENERAL INSURANCE DIVISION		
Deficit at beginning of year	**$ (44,701)**	$ (5,367)
Loss for the year	**(5,654)**	(39,334)
DEFICIT AT END OF YEAR	**$ (50,355)**	$ (44,701)

Statement of Changes in Cash and Short-Term Investments

	Year Ended October 31	
	1987	1986
	(in thousands of dollars)	
RESOURCES PROVIDED FROM (APPLIED TO) OPERATIONS		
Loss for the year	**$ (67,230)**	$ (58,107)
Non-cash items:		
Depreciation and amortization	**1,743**	1,227
	(65,487)	(56,880)
INCREASE (DECREASE) IN RESOURCES		
Accounts receivable	**(4,932)**	(343)
Prepaid expenses and inventories	**43**	(135)
Deferred premium acquisition costs	**7,315**	(1,178)
Accounts payable and accrued charges	**1,265**	4,503
Unearned premiums	**9,091**	8,307
Unpaid claims	**65,670**	72,489
	78,452	83,643
RESOURCES PROVIDED FROM (APPLIED TO) INVESTING ACTIVITIES		
Acquisition of property and equipment, net of proceeds from disposals	**(2,065)**	(1,865)
Decrease (increase) in investments	**(2,215)**	2,239
Organizational costs	**(283)**	(300)
	(4,563)	74
INCREASE IN CASH AND SHORT-TERM INVESTMENTS	**$ 8,402**	$ 26,837
Cash and short-term investments at beginning of year	**66,308**	39,471
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR (Note 4)	**$ 74,710**	$ 66,308

Schedule of Expenses

	Year Ended October 31	
	1987	1986
	(in thousands of dollars)	
Amortization of organizational costs	**$ 738**	$ 420
Commissions	**20,626**	20,062
Data processing	**3,549**	2,732
Depreciation and amortization	**1,005**	807
Employee travel and allowances	**595**	531
Grants in lieu of taxes	**604**	583
Health and education tax	**623**	425
Premium taxes	**8,990**	8,150
Rent	**1,820**	1,417
Salaries and employee benefits	**34,735**	31,222
Other administrative expenses	**5,453**	5,500
	$ 78,738	$ 71,849
Allocation:		
Automobile Insurance Division		
Claims expense	**$ 27,708**	$ 25,292
Administrative expense	**10,709**	9,280
Commissions	**11,531**	10,189
Premium taxes	**7,235**	6,541
	57,183	51,302
General Insurance Division		
Direct, net of reinsurance ceded		
Claims expense	**2,061**	1,743
Administrative expense	**7,427**	6,246
Commissions	**6,924**	6,353
Premium taxes	**1,755**	1,610
	18,167	15,952
Reinsurance assumed (Note 8)		
Administrative expense	**1,217**	1,075
Commissions	**2,171**	3,520
	3,388	4,595
	$ 78,738	$ 71,849

Schedule of Investments as at October 31, 1987

Description of Securities	Par Value	Book Value
Federal:		
Government of Canada	$ 15,000,000	$ 14,865,000
Provincial:		
Province of Manitoba	89,148,000	88,798,000
Manitoba Hydro-Electric Board	24,502,000	23,412,000
Manitoba Telephone System	21,779,000	21,377,000
Ontario Hydro-Electric Commission	28,500,000	25,680,000
	163,929,000	159,267,000
Hospitals:		
Arborg and Districts Health Centre	1,844,000	1,844,000
Baldur Hospital District	145,000	145,000
Brandon General Hospital	1,270,000	1,261,000
Boissevain Hospital District	566,000	566,000
Boyne Valley Hostel Corporation	816,000	816,000
Carman Memorial Hospital District No. 20	2,760,000	2,760,000
Dauphin General Hospital	15,000	15,000
Deloraine Hospital District No. 14	425,000	425,000
The De Salaberry Hospital District No. 27A	137,000	137,000
Flin Flon General Hospital	420,000	420,000
Gimli Hospital District #39	338,000	338,000
Grace General Hospital	627,000	511,000
Hamiota Hospital District #7A	42,000	42,000
Health Sciences Centre	1,682,000	1,626,000
Hunter Memorial Hospital District #33	898,000	898,000
Lakeshore District Health System Inc.	2,232,000	2,232,000
Lakeshore General Hospital District No. 34-A	10,000	10,000
Lynn Lake Hospital District No. 38	46,000	46,000
MacGregor Personal Care Home	66,000	66,000
Manitoba Hospital Capital Financing Authority	3,033,000	3,033,000
Misericordia General Hospital	418,000	418,000
Morden Hospital District #21	421,000	421,000
Neepawa Hospital District #9	217,000	217,000
Park Manor Personal Care Home Inc.	102,000	102,000
Pine Falls General Hospital	195,000	195,000
Portage Hospital District #18	360,000	360,000
Red River Valley Health District	343,000	343,000
Roblin Health Centre District	576,000	576,000
Rossburn Personal Care Home Inc.	286,000	286,000
Russell Hospital District #8	280,000	280,000
St. Anthony's General Hospital — The Pas	420,000	420,000
St. Boniface General Hospital	35,000	30,000
Ste. Anne Hospital District No. 26A	1,527,000	1,527,000
Ste. Rose General Hospital	378,000	378,000

Schedule of Investments as at October 31, 1987 continued

Description of Securities	Par Value	Book Value
Seven Oaks General Hospital	$ 2,630,000	$ 2,260,000
Steinbach Hospital District #27	52,000	44,000
Swan River Hospital District #1	283,000	283,000
Thompson General Hospital	1,084,000	1,066,000
Tri-Lake Hospital District #15	35,000	35,000
Victoria General Hospital	2,142,000	2,132,000
Victoria South Norfolk-Treherne Hospital District #19	127,000	127,000
Winkler General Hospital	50,000	50,000
Winkler Hospital District No. 23	250,000	250,000
Winnipeg General Hospital	38,000	35,000
Winnipegosis General Hospital Inc.	140,000	140,000
Baldur Manor	257,000	257,000
Betel Home Foundation — Gimli	66,000	66,000
Betel Home Foundation — Selkirk	291,000	291,000
Bethania Mennonite Personal Care Home Inc.	25,000	25,000
Birtle Health Services District	367,000	367,000
Dauphin Personal Care Home Inc.	299,000	299,000
Ebenezer Home For The Aged	435,000	435,000
Fairview Home Inc.	11,000	11,000
Flin Flon Personal Care Home Corp.	770,000	770,000
Goodwin Lodge Inc.	55,000	55,000
Holy Family Nursing Home — Sister Servants of Mary Immaculate	563,000	563,000
Lorne Memorial Medical Nursing Unit No. 19C	62,000	62,000
McCreary/Alonsa Health Centre	83,000	83,000
Manoir De Ste. Claude	128,000	128,000
Mount Carmel Clinic	1,580,000	1,580,000
North Norfolk MacGregor Medical Nursing Unit District No. 18A	225,000	225,000
Odd Fellows and Rebekahs Personal Care Home Inc.	205,000	205,000
Pinaow Wachi Inc.	120,000	120,000
Riverdale Health Services District	101,000	101,000
Riverdale Personal Care Home	88,000	88,000
Rock Lake Health District	775,000	775,000
Rock Lake Personal Care Home Inc.	190,000	190,000
Rosewood Lodge Inc.	32,000	32,000
Rossburn District Health Centre	555,000	555,000
St. Joseph's Residence	637,000	637,000
Shoal Lake/Strathclair Health Centre	134,000	134,000
Sister Servants of Mary Immaculate — St. Paul's Home	26,000	26,000
Snow Lake Medical Nursing Unit District #40	537,000	537,000
Stonewall & District Health Centre	199,000	199,000
Tabor Senior Citizens Home Inc.	528,000	528,000
Tache Nursing Centre	726,000	726,000
The Pas Health Complex Inc. — St. Paul's Residence	317,000	317,000
The Pas Health Complex Inc. — St. Anthony's General Hospital	439,000	439,000
Third Crossing Manor Inc.	64,000	64,000

Schedule of Investments as as October 31, 1987 continued

Description of Securities	Par Value	Book Value
Wawanesa & District Health Centre	$ 26,000	$ 26,000
Wawanesa Personal Care Home	215,000	215,000
Winnipeg Presbytery Society For Senior Citizens Homes In Winnipeg	20,000	20,000
Winnipegosis-Mossy River Personal Care Home Inc.	298,000	298,000
Whitemouth Medical Nursing Unit District #29A	134,000	134,000
	41,344,000	40,749,000
Schools:		
The Agassiz School Division #13	925,000	925,000
Antler River School Division No. 43	108,000	108,000
Assiniboine South School Division No. 3	709,000	709,000
Beautiful Plains School Division No. 31	55,000	55,000
Bird Tail River School Division No. 38	550,000	550,000
Brandon School Division #40	1,455,000	1,455,000
Churchill School District No. 2264	47,000	47,000
Dauphin-Ochre School Area #1	1,617,000	1,617,000
Duck Mountain School Division #34	760,000	760,000
Flin Flon School Division #46	564,000	564,000
Fort Garry School Division No. 5	493,000	493,000
Frontier School Division No. 48	151,000	151,000
Garden Valley School Division No. 26	2,133,000	2,133,000
Hanover School Division #15	1,340,000	1,340,000
Interlake School Division #21	632,000	632,000
Lakeshore School Division No. 23	325,000	325,000
Leaf Rapids School Division #2460	231,000	231,000
Lord Selkirk School Division No. 11	2,050,000	2,050,000
Midland School Division No. 25	188,000	188,000
Morris-MacDonald School Division No. 19	276,000	276,000
Mountain School Division No. 28	585,000	585,000
Mystery Lake School District No. 2355	1,478,000	1,478,000
Norwood School Division No. 8	148,000	148,000
Pelly Trail School Division No. 37	393,000	393,000
Portage la Prairie School Division #24	1,635,000	1,635,000
Rhineland School Division #18	189,000	189,000
River East School Division #9	4,704,000	4,704,000
Rolling River School Division #39	565,000	565,000
St. Boniface School Division No. 4	270,000	270,000
St. James-Assiniboia School Division #2	299,000	299,000
St. Vital School Division #6	2,151,000	2,151,000
Seine River School Division #14	1,605,000	1,605,000
Seven Oaks School Division #10	209,000	209,000
Souris Valley School Division No. 42	189,000	189,000
South Winnipeg Technical Centre	856,000	856,000
South Winnipeg Vocational Education Centre	950,000	950,000
Swan Valley School Division #35	268,000	268,000

Schedule of Investments as at October 31, 1987 continued

Description of Securities	Par Value	Book Value
Tiger Hills School Division #29	$ 847,000	$ 847,000
Transcona School Division #12	236,000	236,000
Western School Division #47	102,000	102,000
Winnipeg School Division No. 1	5,638,000	5,638,000
The White Horse Plain School Division #20	585,000	585,000
	38,511,000	38,511,000
Municipal:		
City of Brandon	1,527,000	1,463,000
City of Flin Flon	1,620,000	1,620,000
City of Portage la Prairie	3,571,000	3,551,000
City of St. Vital	27,000	24,000
City of Transcona	70,000	63,000
City of Winnipeg	6,896,000	6,712,000
Metro Corp. of Greater Winnipeg	491,000	418,000
Town of Altona	496,000	496,000
Town of Birtle	119,000	118,000
Town of Boissevain	22,000	21,000
Town of Carman	468,000	468,000
Town of Dauphin	811,000	811,000
Town of Deloraine	491,000	491,000
Town of Emerson	304,000	304,000
Town of Gimli	112,000	112,000
Town of Gladstone	212,000	212,000
Town of Grandview	249,000	249,000
Town of Hartney	4,000	4,000
Town of Killarney	250,000	250,000
Town of Melita	292,000	292,000
Town of Minnedosa	155,000	150,000
Town of Morden	318,000	318,000
Town of Morris	239,000	239,000
Town of Neepawa	342,000	342,000
Town of Rapid City	103,000	103,000
Town of Rivers	45,000	40,000
Town of Roblin	188,000	188,000
Town of Russell	339,000	339,000
Town of Selkirk	332,000	332,000
Town of Snow Lake	78,000	78,000
Town of Steinbach	1,114,000	1,111,000
Town of Stonewall	259,000	259,000
Town of Swan River	376,000	376,000
Town of Tuxedo	50,000	46,000
Town of Virden	200,000	200,000
Town of Winnipeg Beach	47,000	47,000
Village of Arborg	69,000	69,000

Schedule of Investments as at October 31, 1987 continued

Description of Securities	Par Value	Book Value
Village of Benito	$ 39,000	$ 39,000
Village of Binscarth	72,000	72,000
Village of Ethelbert	10,000	10,000
Village of Glenboro	3,000	3,000
Village of Gretna	18,000	18,000
Village of Hamiota	26,000	26,000
Village of Lac du Bonnet	137,000	137,000
Village of MacGregor	53,000	53,000
Village of Manitou	127,000	127,000
Village of Pilot Mound	89,000	89,000
Village of Riverton	7,000	7,000
Village of Rossburn	49,000	49,000
Village of Shoal Lake	146,000	146,000
Village of Somerset	102,000	102,000
Village of Ste. Anne	5,000	5,000
Village of St. Pierre-Jolys	281,000	281,000
Village of Teulon	33,000	33,000
Village of Winnipegosis	30,000	30,000
Rural Municipality of Argyle	34,000	34,000
Rural Municipality of Brenda	50,000	50,000
Rural Municipality of Brokenhead	232,000	232,000
Rural Municipality of Cartier	8,000	8,000
Rural Municipality of Charleswood	8,000	7,000
Rural Municipality of Edward	116,000	116,000
Rural Municipality of Hanover	223,000	223,000
Rural Municipality of La Broquerie	22,000	22,000
Rural Municipality of MacDonald	328,000	328,000
Rural Municipality of Montcalm	164,000	164,000
Rural Municipality of Morris	541,000	541,000
Rural Municipality of Pipestone	10,000	10,000
Rural Municipality of North Norfolk	138,000	138,000
Rural Municipality of Ritchot	371,000	371,000
Rural Municipality of Rockwood	97,000	97,000
Rural Municipality of Roland	114,000	114,000
Rural Municipality of Ste. Rose	16,000	16,000
Rural Municipality of Siglunes	144,000	144,000
Rural Municipality of Springfield	23,000	23,000
Rural Municipality of Tache	20,000	20,000
Rural Municipality of Thompson	32,000	32,000
Rural Municipality of Victoria Beach	34,000	34,000
Rural Municipality of Whitewater	15,000	15,000
Local Government District of Consol	362,000	362,000
Local Government District of Leaf Rapids	2,095,000	2,095,000
	28,710,000	28,339,000
	$287,494,000	$281,731,000

The Manitoba Public Insurance Corporation

Notes to Financial Statements October 31, 1987

1. STATUS OF THE CORPORATION

The Manitoba Public Insurance Corporation was incorporated as a Crown Corporation under The Automobile Insurance Act in 1970. In 1974 The Automobile Insurance Act was revised and became The Manitoba Public Insurance Corporation Act (Chapter A180, of the continuing consolidation of the statutes of Manitoba).

Under the provisions of its Act, the Corporation operates an automobile insurance division and a general insurance division. The automobile insurance division provides universal compulsory automobile insurance and extension coverage sold in accordance with rates prescribed in the regulations. The general insurance division insures such risks as personal property, commercial property, liability, and special risk extension coverage. For financial accounting purposes, the automobile insurance division and the general insurance division are regarded as separate operations and their revenues and expenses are allocated on a basis described in the summary of significant accounting policies.

2. BASIS OF REPORTING

The financial statements of the Corporation are in such form as prescribed by Section 37(1) of The Manitoba Public Insurance Corporation Act and are presented in accordance with generally accepted accounting principles.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary outlines those accounting policies followed by the Corporation which have a significant effect on the financial statements.

Deferred Premium Acquisition Costs

Commissions and premium taxes are charged to expense over the terms of the insurance contracts to which such costs relate.

Investments

Investments are carried at amortized costs. The applicable discounts or premiums are amortized over the life of the investment.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis at rates which will amortize the cost of each asset over its estimated useful life at the following annual rates:

Buildings	2.5%
Equipment	10.0%
Data processing equipment	20.0%
Automotive equipment	20.0%

Leasehold improvements are amortized over the term of the lease plus the first renewal period.

Organizational Costs

The costs of organizing or re-organizing major computer programs which are expected to be of continuing benefit to the Corporation are deferred to future periods. These organizational and computer program expenditures are stated at cost net of accumulated amortization and are amortized on a straight line basis at the rate of 5% per year.

Pension Plan

The employees of the Corporation are subject to the Civil Service Superannuation Act. Included in the accounts is a provision for the full funding of the employer's future pension liability calculated on an indexed basis, based on the most recent actuarial valuation at December 31, 1986.

Unearned Premiums

The liability for unearned premiums is the portion of premiums that relate to the unexpired term of each insurance contract.

Unpaid Claims

Unpaid claims include a provision for reported unpaid claims, an estimate for unreported claims and a provision for claims adjusting costs for reported and unreported claims.

Premium Deficiencies

A premium deficiency exists when future claims and expenses exceed unearned premiums. In calculating a premium deficiency, the Corporation recognizes anticipated investment income.

Allocation of Revenue, Claims Incurred and Expenses

Premiums written, earned and claims incurred are allocated directly to the division writing the insurance risk.

Investment income has been allocated to the automobile and general insurance divisions based on a monthly averaging of the funds available within each division.

Notes to Financial Statements (continued)

3. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES* (continued)

Claims expense and expenses are allocated to the automobile and general insurance divisions on the following basis:

i) Identifiable direct expenses are charged to each division.

ii) Where direct allocation is impracticable, expenses are prorated to each division based on factors such as space, number of employees, time usage, etc. The formulas developed for the allocation of expenses are approved by the Board of Directors.

Reinsurance Ceded

The Corporation's financial statements are prepared net of ceded reinsurance.

4. *CASH AND SHORT-TERM INVESTMENTS*

	1987	1986
	(thousands of $)	
Cash and short-term certificates	$67,349	$50,552
Investments maturing within one year	7,361	15,756
	$74,710	$66,308

At October 31, 1987 the Corporation has committed $9.9 million (1986 — $8.8 million) for the purchase of various Manitoba long term securities.

5. *ACCOUNTS RECEIVABLE*

	1987		1986	
	Subrogation	Other	Subrogation	Other
	(thousands of $)			
Accounts receivable	$11,080	$32,277	$ 9,806	$27,514
Less allowance for doubtful accounts	5,962	1,892	5,731	1,018
	$ 5,118	$30,385	$ 4,075	$26,496

6. *PROPERTY AND EQUIPMENT*

	1987			1986
	Cost	Accumulated Depreciation and Amortization	Net	Net
	(thousands of $)			
Land	$ 3,210	$ —	$ 3,210	$ 2,947
Buildings	9,859	1,882	7,977	7,741
Equipment	4,779	2,458	2,321	1,641
	17,848	4,340	13,508	12,329
Leasehold improvements	1,403	944	459	578
	$19,251	$5,284	$13,967	$12,907

7. *REINSURANCE*

The Corporation follows the practice of obtaining reinsurance to limit its exposure to losses. Under agreements in effect at October 31, 1987, these reinsurance arrangements limit the Corporation's exposure to a maximum amount of $1,000,000 on any one occurrence.

The reinsurance arrangements also limit the Corporation's liability in respect to a series of claims arising out of a single occurrence, including catastrophic claims, to a maximum of $2,350,000. These arrangements protect the Corporation against losses up to $40,000,000 for the Automobile Insurance Division and $10,000,000 for the General Insurance Division.

Certain lines of insurance carry maximum limits lower than these amounts. While these arrangements are made to protect against large losses, the primary liability to the policy holders remains with the Corporation.

8. *INCOME (LOSS) FROM REINSURANCE ASSUMED OPERATIONS*

The Corporation underwrote a portfolio of assumed reinsurance, which accepted a portion of the risk of other insurers. For the year ended October 31, 1987 the results are:

	1987	1986
	(thousands of $)	
Premiums written	$15,709	$18,096
Premiums earned	$16,008	$17,406
Investment income	2,246	2,023
Total earned revenues	18,254	19,429
Claims incurred	9,284	51,517
Administrative expenses	1,217	1,075
Commissions	2,171	3,520
Total claims and expenses	12,672	56,112
Income (loss) from reinsurance assumed operations	$ 5,582	$(36,683)

Effective November 18, 1987 the Corporation discontinued writing reinsurance assumed business. Claims costs and expenses will continue to be incurred until all claims on existing treaties are settled. In addition, premiums relating to the assumed business will be reflected in operations as they are earned.